

## State of the State Address

Delivered by Governor Bob Holden

Wednesday, January 15, 2003

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Mr. President, Madame Speaker, Mr. President Pro Tem, Distinguished State Officials, Mr. Chief Justice, Honored Members of the Missouri Supreme Court, Members of the 92nd General Assembly, First Lady Lori Hauser Holden, and Citizens of the State of Missouri:

I come before you today, the 15th of January, on the anniversary of the birth of one of our greatest American leaders, Dr. Martin Luther King, Jr.

Had his life not been tragically ended at the age of 39, he would be 74 today.

Yet in that short life span, the words he spoke and the principles he stood for...fought for...and died for...had such an impact that they continue to help chart our course today.

In the face of threats and intimidation that he and other civil rights leaders faced, Dr. King taught us the important lesson of perseverance.

And, he warned us against the temptation of "wallowing in the valley of despair."

He had a Dream...and in spite of seemingly impossible obstacles, he held firm to that Dream.

Today, Dr. King's wisdom and leadership can guide us as we move forward in challenging times.

President Franklin Roosevelt faced such times.

He faced the greatest economic depression this country has ever known, and he taught us that when you lead with "frankness and vigor," you are met with "understanding and support."

Our own Harry Truman faced tough economic times as President.

Yet he offered the American people straight talk and a plan...a plan he called his Fair Deal.

This plan proposed reforms and some tough medicine, but it did not sacrifice the future.

Instead it protected the future by emphasizing education and research.

From these leaders we have learned to have a dream...to have perseverance...to be honest about our situation...and to have a plan to move forward.

Like these leaders, we must overcome the challenges of the present.

We must turn our challenges into opportunities.

Each of you has come here to do your best for your district and the people you represent.

Some of you are returning for your final term as a state senator or state representative.

You have a unique opportunity to offer wisdom, experience, and knowledge to help us meet the most challenging budgetary situation faced by our state since the Great Depression.

Many of you are here for the very first time.

Never before have these chambers had such an influx of new faces.

And for the first time in years, we have a divided government...with one party controlling the executive branch and another controlling the legislature.

Cynics might say that this kind of divided government cannot work.

For the sake of the people of the State of Missouri, I say it must!

I welcome your energy and enthusiasm.

I welcome your new ideas.

To each and every one of you, I want to reiterate what I said November 7th, following your election.

I want to work with anyone--Democrat or Republican, veteran legislator or freshman--who comes here to help move our state forward.

We must all remember why the voters sent us here.

In the weeks ahead, you will hear a lot about bills and amendments, hearings and caucuses, appropriations and withholdings, and thousands of other things.

But at the end of the day, our work isn't about any of that.

Our work is about people.

Our work is about those people back home who have put their trust in us.

This job is about what we can do to help our citizens live decent lives and help our children grow up safe, well educated, and ready to work.

It is about providing jobs for our workers and helping our seniors retire in dignity.

The citizens of Missouri look to us for all these things.

They look to you and me to lead through challenging economic times.

Some may think that we must stop dead in our tracks in our efforts to make Missouri a better place to learn, work, and live. Some may think our days of progress are over.

I reject that!

In tough times, it is more important than ever that we continue to lead and to achieve.

Let's look at all we have accomplished.

In the past two years, we increased funding for education at the elementary and secondary level, while 17 other states chose to cut funding for education.

We've made real progress in our schools.

Reading scores are up.

ACT scores are up.

Our school dropout rate is down.

We have doubled the number of teachers who are nationally board certified.

We've added character education programs and accountability programs.

We now have individual school report cards and parents can go on-line to see how their child's school sizes up.

At our universities, we've increased support for life sciences because we know this is the key to our future knowledge-based economy.

We passed landmark legislation to improve health care for women.

We have continued our MC + for Kids program, providing health care for previously uninsured children.

And we've done something the federal government has failed to do--we passed a prescription drug plan for our seniors.

We've made all these accomplishments while maintaining our Triple A bond rating.

Only seven other states have such a high rating.

This top rating means the financial market has the highest confidence in our management ability.

We were the first state in the nation to create an Office of Homeland Security.

I pulled together leaders from many different professions--health, emergency services, transportation, and law enforcement --to improve security at every level.

Because of their work, we have already seen improvements in communications and law enforcement and emergency response efforts that will serve us well in a variety of situations.

We have accomplished all of these things, while keeping the budget in balance, as our constitution requires.

Now is not the time to turn back.

#### JOBs AND THE ECONOMY

As we look to the future, our single most important priority can be summed up in one word--"jobs."

We must make every effort both to hold on to our good jobs and to move our state more rapidly into the new "knowledge-based economy" of the future.

As you know, the current national economy has not produced a net gain of even one single job during the last two years.

In fact, there has been a net loss of jobs nationally.

In Missouri we must put together a job stimulus effort that makes the right choices that will pay off for the long term.

I am proposing several actions today to help Missouri hold on to good paying manufacturing jobs and to help our state plan for the future.

First, I am calling for a one-percentage point reduction in the corporate tax rate.

If we make certain all businesses pay their fair share, we can broaden our tax base, and we can provide some stimulus to small businesses and all those good corporate citizens in Missouri who are working hard and paying their fair share.

Reducing the corporate tax rate will provide support for Missouri businesses in a time of economic challenge with the goal of growing the economy and creating jobs.

Second, I want to provide the right incentives to protect the right jobs already in Missouri.

Currently, our economic incentive programs primarily concentrate on attracting new businesses to our state.

We must tailor more of our incentives to retain good companies already in Missouri.

It makes no sense to offer incentives to attract companies to Missouri that provide low paying jobs, while Missouri employers with higher wages may be looking elsewhere.

We will insist these incentives be tied to important capital investments such as retooling or investing in new technologies.

In St. Louis alone, this change would help protect the jobs of about 2,600 people with salaries averaging over \$60,000 a year at the Hazelwood Ford Plant.

Missouri's economic future also depends on a quality total transportation system.

However, the public has expressed a lack of confidence in the current structure, and we cannot address underfunding until we address accountability.

That is why I am proposing a constitutional amendment that would transfer responsibility for managing the department to the Governor, effective 2005.

If we are to move forward on transportation, the public must know whom to hold accountable.

Finally, we must make Missouri a leader in the new "knowledge-based" economy of the future.

The critical foundation of this effort--the key to Missouri's future---is--and must always be--education.

Improving education in our state is the most important step we can take to provide better opportunities for our children and to improve our climate for the knowledge-based economy.

And as we advance to the economy of the future, our investment in higher education becomes even more important.

Investments made in our universities...made when our economy was stronger...were the right investments to make.

Missouri is now poised to move forward in the knowledge-based economy by focusing on innovation and the critical areas of the life sciences, advanced manufacturing, and information technology.

But to quote the Chancellor at the University of Missouri--Columbia, it takes a long time to build up a major research university--one that contributes to our economy and one that competes with other major universities.

And just a short time to tear one down.

Support for our universities is an investment in the jobs of the future.

And that is why I also urge all businesses and corporations in this state to strengthen their commitment to higher education.

Because if you are in business in Missouri, the benefits of a strong higher education system flow directly to you--from the quality of your future workforce to the research that provides advances in agriculture, technology, life sciences, biotechnology, and advanced manufacturing.

I am taking two steps to strengthen the link between our businesses and higher education.

I am appointing a Commission on the Future of Higher Education.

This voluntary commission will make recommendations on how we can find ways to strengthen the link between higher education and economic growth in our state, how we can improve higher education overall in Missouri, and identify any new funding sources for our colleges and universities.

Second, I have called for a new alliance between businesses and our universities.

I have asked leaders in higher education and in the private sector to create the Research Alliance of Missouri to coordinate research and provide more access to technology for Missouri businesses.

They start their work today.

By these two steps, we can better direct and connect higher education and the economy.

We must make our colleges, universities, and technical schools the engines that fuel our economy of the future.

#### MISSOURI'S CURRENT BUDGET

We must also resolve our budget situation if we are to move our state forward.

Missouri now faces a projected one billion-dollar budget shortfall.

Former Governor Ashcroft's budget director has briefed business leaders in this state to help them better understand the significance of this shortfall.

Perhaps some of you have seen his presentation, in which he points out that only \$6.8 billion of our budget is state general revenue.

The remainder of the budget is federal money earmarked for specific services and dedicated state funds such as money for highways.

This \$6.8 billion is what you and I directly control.

One half of that goes to education--K-12 and higher education.

The other half goes into critical services for the mentally ill, the disadvantaged, and ensuring public safety.

In fact, more than half of the general revenue funded employees in Missouri state government work in our 24-hour institutions ---our prisons, mental health hospitals, veterans homes, and group homes.

A one billion dollar shortfall in a \$6.8 billion budget leaves few good options.

We have a challenge...as do forty-five other states.

Time magazine reports that states are facing the most severe budget crisis since World War II.

Our neighbor Kansas, with a budget about half our size, has a \$1 billion shortfall over two years.

Our neighbor to the East, Illinois, has a \$5 billion deficit.

And California has a \$35 billion shortfall.

These examples are telling evidence of the weakness in our national economy.

But knowing that other states share this dilemma does nothing to solve the problems here.

We have to do that ourselves, and it will take a united, focused effort on the part of those in this room today.

It is time for some plain Missouri talk.

To those who suggest we need to cut spending, let me assure you we have... and we will continue to reduce the size of government.

But if we are to be honest, we must acknowledge that already Missouri ranks near the bottom in per capita spending by state government.

In fact, we are 44th in per capita spending.

And if we are to be honest, we must acknowledge the progress we have already made to streamline government.

During the past two years, my administration has done more to reduce the size of government than any other administration -Democrat or Republican --in recent history.

In two years, we have cut \$900 million from the budget and more than 1,000 state jobs to meet the constitutional obligation of keeping the budget balanced.

Last week I approved additional withholdings just to keep our budget balanced through the end of June.

Because of declining revenue due to the national economy, we still have a shortfall in this year's budget, which ends June 30.

One of your first orders of business in this session must be to approve an appropriation for the securitization of the tobacco settlement.

Without this action, deep cuts in education and other vital services will be necessary.

I trust you will see the wisdom of following through and implementing tobacco securitization, as you overwhelmingly approved it last year.

Despite all these efforts, we still have a one billion dollar shortfall next year.

Today I am announcing my plan to meet both our constitutional responsibility to balance the budget and our civic responsibility to provide for the well being of our citizens.

We have combed the budget...department by department...program by program...line by line...looking for savings.

The actions I am announcing today will bring the total reductions I have had to make to \$1.1 billion.

We are making every appropriate effort to cover next year's shortfall, reduce the size of government, and live within our means.

But, to cover the shortfall in cuts alone would require making one billion dollars in additional reductions.

And would require actions that you and I cannot accept.

Some states already have resorted to such actions.

More than 100 school districts in seven states...states like Arkansas and Colorado--are now shutting down their public schools one day a week.

In California, the Governor has called for reductions in health care spending that will deny service to at least 209,000 needy people.

Kentucky has released 567 prison inmates.

This is a road I am not willing to take.

Members of this General Assembly: we are at a crossroads in this state.

We can take the road of the one billion-dollar cut--which leads us backward.

This road leads to deep cuts in education, massive layoffs, and significant cuts to vital state services.

Or we can take a better road...the road forward.

One that continues our progress to streamline government, but one that protects and maintains critical services and also leads us to a brighter future.

We can take a road that provides better opportunities for our children and the job producing economy of the future.

Today I am calling on you to take the second road by embracing a new budget plan...one I call the Fair Share Plan.

#### FAIR SHARE BUDGET

I began discussion of this new plan with legislative leaders last September.

Then I went to other locations throughout the state to share my concerns about the budget with our citizens and to seek their input.

Time and time again, these Missourians told me they did not want vital services cut.

And time and time again, they recognized that an investment in education is an investment in jobs.

The people of Missouri have said they want their priorities funded.

Today I come to you with a plan that protects those priorities...one that continues our efforts to reduce the size of government, but one that does not sacrifice our future.

One important element of this Fair Share Budget is to close special interest loopholes that do nothing to grow our economy.

The vast majority of Missouri businesses do not benefit from these special breaks, which create a larger tax burden for the rest of our businesses.

And eliminating them is long overdue.

Some of these loopholes are blatantly unfair and were simply written to carve out breaks for special interests.

Some were well intentioned at one time, but have now outlived their usefulness.

And some were simply bad ideas or poorly written.

Many tax lawyers and accountants have developed a good eye for spotting gray areas of our law.

There's nothing illegal about that.

But I am reminded of W.C. Fields, who once said that his purpose for reading the Bible was to look for loopholes.

Tax advisors for special interests read the law the same way.

We have given them way too much easy reading.

My staff and I have spent the last four months working with business leaders and economists across this state.

Together we have identified a number of loopholes that should be closed.

For example, one of these loopholes allows national franchises to avoid paying corporate income taxes in Missouri by setting up dummy corporations in states that charge no corporate tax.

National franchises get this tax break, while the local hardware stores and corner drugstores pay their fair share.

Twenty-five other states, including our neighbor Illinois, have already closed this loophole, which costs Missouri millions every year.

Another Missouri tax loophole exempts royalties, dividends, and interest income Missouri businesses receive from their out-of-state interests.

This is essentially income that is not taxed anywhere.

This money is generated by corporate activity in our state and should be treated like other Missouri income.

We are the only state in the nation to offer this break, and it is costing us \$31 million every year.

When small Missouri businesses and working families see these perks that have been carved out for a few, their confidence in the fairness of our government is eroded.

They know that special interest tax loopholes are the worst form of wasteful spending.

By making these changes in our laws, we restore equity to our system, and we will generate revenue to allow us to meet our goals for the future.

Closing loopholes will allow us to make the one-percentage point corporate tax rate reduction we need to stimulate our economy.

It does not put an undue burden on any corporation to pay the taxes that most Missouri businesses have been paying all along.

But even when we close these loopholes, we will still be left with a major revenue hole in the budget.

Therefore, I am proposing that we increase the admission fee on gaming boats by \$2.00, raise the gross receipt tax by two percent, and eliminate loss limits.

These steps will protect the school foundation formula from cuts.

I will also seek a cigarette tax dedicated to health care.

But in this proposal, the money will be needed to protect existing health care needs, including health care for our low-income elderly.

I propose these two revenue increases--gaming fees and cigarette taxes--as an alternative to a general tax.

These are optional taxes that most citizens won't have to pay.

Finally I propose a five-percent surcharge on individual income tax on households making more than \$200,000 a year.

This proposal will only affect two percent of Missourians.

Changing our tax structure is never easy.

But responsible leadership demands such action.

My Fair Share Budget guarantees needed revenue but not at the expense of the majority of the working families of Missouri, who already pay their fair share.

If implemented, these actions will prevent deep cuts.

My plan ensures that we continue toward a goal of a leaner state government.

But I do not want it to be a meaner state government.

I know we must make additional savings.

This is one of the toughest budgets that has ever been proposed.

We have made major cuts, and they have been painful.

And we will continue to make cuts.

But we cannot cut and cut alone.

We cannot cut ourselves out of this hole without sacrificing our future and our economy.

We cannot cut ourselves out of this hole without hurting our most vulnerable citizens.

In fact, we must strengthen our resolve to protect our foster care children.

This past fall I ordered an investigation of our foster care program, and as a result, I have ordered a restructuring of the program and several personnel changes.

I have proposed a new children's division in the Department of Social Services and an ombudsman to investigate complaints and monitor children's services.

And the budget I present today prevents cuts in funding for children in state custody.

We must also strengthen our resolve to protect our elderly.

I am proposing tougher laws to protect the elderly in our nursing homes.

This is the opportunity to show our elderly we are on their side.

We must pass the Senior Care and Protection Act.

And we must strengthen our resolve to support another group of good Missourians who deserve our support...our state workers.

Missouri state workers have not had a cost of living pay increase in two years.

Regrettably, our budget crisis means we cannot fund an across the board increase this year.

But my budget does include an early retirement plan for state workers, which would save \$24 million, and allow us to provide a modest increase of \$600 annually to state workers who make less than \$40,000.

This increase would be directed to those on the front line of service.

These are the workers who provide the security in our prisons, the assistance in our schools for the blind and the deaf, and the care in our state hospitals.

Time and time again, I have expressed to them my appreciation.

But praise and thanks do not put food on the table.

As we begin this new 2003 legislative session, I want to again welcome all new legislators of both parties.

I want to reiterate my commitment to work with you to govern our state responsibly.

On the opening day of this legislative session, much attention was given in both chambers to the problems we face as Missourians and much was said about what we want for Missourians.

But not one idea was put forward as to how we achieve these goals.

What Missourians expect from us is neither rhetoric nor a partisan battle over whether we have a revenue problem or a spending problem.

What Missourians expect from us is leadership and solutions.

I come to you today with solutions...solutions that meet our constitutional duty to produce a balanced budget and still preserve the key services Missourians expect state government to provide.

Your responsibility now is to send me a balanced budget.

But let me be clear as this process begins:

I will not sign a budget that cuts one billion dollars.

A budget balanced on the backs of hard working Missouri families is not acceptable.

I will not consider a plan that destroys an opportunity for quality public education for all our children...nor will I tolerate schemes to steal money from our poor schools and our rural schools to fund our richest schools.

I will not sit on the sidelines and let our legislative leaders try to pit higher education against elementary and secondary education.

We are all in this together.

Such actions would violate our duty to our children and their future.

And I will not accept a plan that hurts our working families and turns our back on our most vulnerable--our elderly, our disabled, or our children in foster care.

#### KEEPING FAITH WITH THE FUTURE

Today I am submitting a Fair Share Budget that provides a solution to our one billion-dollar deficit.

But it requires us to work together with resolve.

This budget requires continued cuts...but not cuts that sacrifice our priorities.

This plan is a solution to our one billion-dollar deficit for fiscal year 2004.

This is a budget that allows us to keep faith with the future.

Our great leaders of the past kept faith with the future.

Dr. King did not wallow in the valley of despair.

Instead he focused on the dream for a better tomorrow.

Harry Truman did not abandon the future.

In fact, it is said that Truman, from the time of his high school graduation, kept in his wallet these lines by the great poet Tennyson:

"For I dipped into the future, far as the human eye could see, saw the Vision of the world...all the wonder that could be."

Our challenges today pale in comparison to those faced by our parents and grandparents--who fought our great wars, survived the Great Depression, and worked long and hard every day of their lives.

They kept faith with the future by investing in education, in the interstate highway system, in engineering and medical research and space exploration.

We have a commitment to our parents...to our children...and our grandchildren.

Our future demands that we embrace the economy of tomorrow by making the right investments now.

As we deal with the realities of today, we must keep our faith with the future.

We must look ahead as far as the eye can see...to find a vision for our state...and all the wonder it can be.

Thank you.

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